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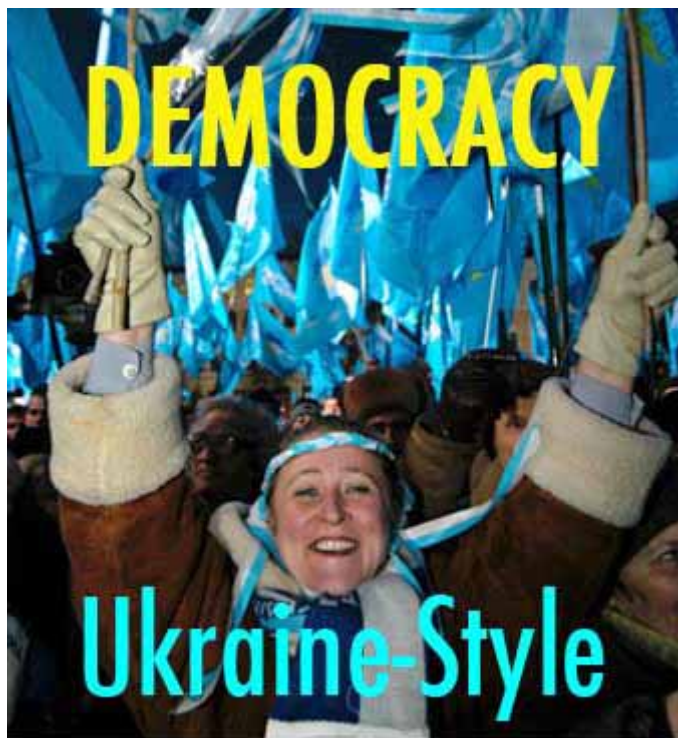


Photo: ITAR-TASS / Alexander Prokopenko

Much has been written and said about the March 26th Ukrainian elections. Some have questioned whether Ukraine is signaling a desire to work more closely with Russia, after the party of former Prime Minister Viktor Yanukovich, the failed candidate for President in 2004, came in first. Others speculate whether former Orange allies, Yulia Tymoshenko and Viktor Yushchenko, can patch up their personal and political differences and form a workable coalition to continue the path toward integration with the West.

In reality, the elections of March 26th show that Ukraine, much like the United States, is made up of essentially two political forces, each enjoying support from roughly half of the population. And, like the United States, each political force has regional and geographic strengths — in this case "blue and orange oblasts" versus "blue and red states."

## Orange Versus Blue

The Two Forces of Ukraine Politics  
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The Orange coalition, made up of the Yulia Tymoshenko Bloc, the Our Ukraine Party and the Socialist Party, garnered 42% support from the electorate. The Blue coalition of the Party of Regions and Communist Party gained 36% of the vote. Conventional wisdom says these blocs will divide up the seats in parliament, with the Orange coalition controlling a 242-seat majority, and the Blue coalition filling 207 of the seats. A simple majority is made up of 226 seats. However, talks between party winners have begun and the results may bring surprises, with related risks and opportunities.

"Like politics in the United States, the focus is often on the political and policy differences between the two political forces, when in reality there is a lot more commonality of aspirations and vision for Ukraine among the political leadership," says PBN's Senior Vice President Myron Wasyluk. "One clear message that the voters of Ukraine delivered, whether they voted blue or orange, was a desire to see the country's leaders put politics aside and focus on solving the problems important to the average citizens — better health care, education, pension plans and accountability in government."

"The harmonious regional and socio-economic development of our country is a common goal upon which all parties should be able to agree," wrote Ukraine President Viktor Yushchenko in a recent Wall Street Journal editorial. He called for a "stability pact" signed by all parliamentary forces and outlining the principles of national unity, saying "cultural, religious and linguistic differences have no place on the agenda. Similarly, federalism and special economic privileges will narrow, not strengthen, Ukraine's economic opportunities and competitiveness."

"The biggest winner on March 26th was democracy, as Ukraine for the first time in its 14 years of independence held free and fair elections," says Myron. "And, like free and fair elections anywhere in the world, there were surprises and there were upsets. But the people have spoken; now it's time for our leaders to lead."

This edition of *Access PBN* examines Ukraine's March 26th elections — the results and the likely focus of the new government. It also gives a glimpse of what free and fair elections looked like in Ukraine.



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## Orange Versus Blue

Five political parties passed the 3% threshold to gain representation in the country's 450-seat legislature known as the Verkhovna Rada. The top vote-getter was the Party of Regions, led by former Prime Minister Viktor Yanukovich, which captured 32% of the vote. Another former prime minister, Yulia Tymoshenko, unexpectedly took 22% of the vote, finishing the race in second.

President Viktor Yushchenko and the government received high marks for organizing the poll from the international community. However, voters were less than generous in supporting his political force, Our Ukraine, which finished the race in third place with just under 14%.

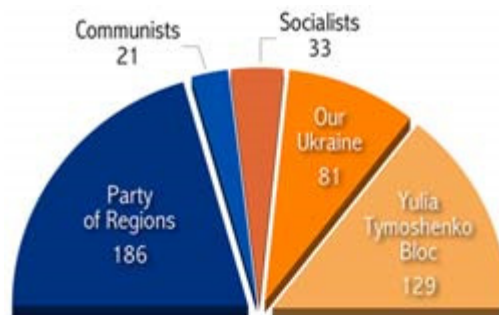
Not unexpectedly, these three political parties combined took 68% of the vote to remain the dominant forces in Ukrainian politics. Voters aligned with the same political forces that battled for the presidency in 2004. Then, Yanukovich supporters gained the blue label, which represented their campaign colors. Supporters of the election winner Viktor Yushchenko, became known as orange. This election confirms the balance between these two political forces remains tilted in favor of the orange, which represent Ukraine's pro-European democratic movement.

Two smaller parties round out the circle of election winners. Pro-European Socialists took under 6% of the vote and are likely to continue participating in an orange coalition. Meanwhile, representatives of the pro-Russian Communist Party took just under 4 percent of the vote and are likely to side with the Party of Regions.

### Coalition Government

Yanukovich's victory in the race was well received by

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Top: A representation of the Verkhovna Rada floor shows party alignments based on the election results.

Above: Though the Party of Regions garnered the most seats of any political bloc, a coalition of orange MPs would have a majority vote in the parliament.

voters in the eastern and southern regions, which overwhelmingly supported him. However, given the make-up of the Rada, he lacks natural political allies among other parties to piece together a majority and seems unlikely to go on to form a ruling government coalition.

All eyes now turn to the orange coalition led by Tymoshenko, who was written off as politically insignificant at the beginning of this year. But she captured the electorate's disenchantment with the agreement finally brokered between Russia and Ukraine on gas prices, earning political points from both the general voters and business, which felt the impact of the price increase most acutely. She out-campaigned rivals and successfully focused on converting undecided orange voters to her side.

Our Ukraine recognized Tymoshenko's unexpected win on election night and said they would align with her. Socialists also announced their preference for joining the orange team. Nonetheless, both parties are keeping the doors open to possible cooperation with the Party of Regions.

Constitutional changes that went into effect last January shift some executive powers from the presidency to parliament. Ukraine moves away from post-Soviet one-man rule and closer to European multi-party parliamentary democracy. Accordingly, 30 days after election results are announced, parliament parties must form a legislative majority and then a ruling government coalition. The president maintains power to appoint the ministers of foreign affairs and defense. The president also gains the power to disband parliament under several specific circumstances.

### **Beyond the Bar**

Ukraine's first democratic parliamentary election brought many surprises. Pre-election polls showed at least two more political parties had a fighting chance to pass the 3 percent threshold for seats in the parliament club.

Incumbent Rada Speaker Volodymyr Lytvyn, who positioned himself as neither blue nor orange, tried to capture voters disenchanted with the dominant political players. Experts blamed his loss on two major campaign mistakes. First, shying from live public debates and instead relying solely on spot advertising and media features. And second, amassing a candidate list full of former Kuchma-era officials widely disliked by voters.

Natalia Vitrenko, Ukraine's pro-Kremlin anti-NATO warrior who lead the leftwing progressive socialists, fought a tough campaign, but fell shy of the votes needed to win seats in the Rada. Her campaign strategy was to take away votes

from the communists. However, the electorate aligning itself with the communist party has dwindled so much in recent years that there was very little remaining to be divided.

Both are expected to file lawsuits for a recount of the election results.



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## What's in Store for Business?

Business kept a close eye on the Ukrainian election. Oligarchs, multinationals, entrepreneurs and small businesses all tuned in to the campaign with interest and just a little bit of trepidation. Just how election results will translate into economic policy remains to be seen. However, judging from party platforms, all parties except the communists appear to favor a market economy.

President Viktor Yushchenko predicts a window of opportunity for business and investors in Ukraine after the elections and has said as much to election winners in one-on-one meetings immediately after results were released.

After the 2004 orange revolution, both the United States and the European Union recognized Ukraine as a market economy, giving a boost to international trade. Ukraine also looks set to join the World Trade Organization this year, opening up new markets for local producers. Foreign investment rose five-fold in 2005, and more growth is expected this year due to strong domestic consumer demand coupled with aggressive government privatization programs. Modernizing transportation corridors, energy exploration and production, as well as other infrastructure projects are capturing investor attention and remain high on the president's investment agenda.

The formation of macroeconomic policy will be at the center of business attention in the near future. A budget deficit due to low tax collections during the first quarter is an immediate priority. The new government is expected to begin reviewing the state budget with amendments expected already by mid-year.

A closer look at Ukraine's three major political parties and their platforms can foretell some of the country's potential economic policies:

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**Above:** A crowd gathers at a Kyiv polling station to study their ballots before voting. From pensioners to businessmen, there was no doubt that this was an election for the individual Ukrainian.

**Below:** Renat Akhmetov, Ukrainian coal and steel oligarch and Party of Regions supporter, completes his ballot. He is Number 7 on the party list of former prime minister Viktor Yanukovich.



Photos: AP/Wide World Photos

- Party of Regions represents perhaps the greatest concentration of domestic capital, with almost half of the first 50 MPs coming from business and heavy industry. Look for policies that stimulate exports, create free trade zones and reintroduce tax and other loopholes for business, in particular for the mining industry. The Party of Regions favors lower tax rates and greater deregulation. Many fear their ability for insider deals on major privatizations and other state budget purchases.
- Yulia Tymoshenko's bloc has a number of business representatives from the banking, automotive, mining and agriculture sectors. While party members range from liberal to social-democratic in ideology, the tone of the party's leader is definitely protectionist. Her reprivatization policies during the first half of 2005 scared away both domestic and international investors.
- Our Ukraine continues to be more liberal in economic views than other political parties. Greater asset sales, policies that promote small business development and a stable macroeconomic environment are favored by party rank and file.

Battling corruption will require renewed efforts once a ruling government is formed. Tymoshenko and Our Ukraine are likely to continue cleaning out business from government and holding free and transparent tenders for state purchases and sell-offs. Party of Regions will certainly move to clear its members from any outstanding criminal investigations. Given new media freedoms and voter intolerance for corruption, the checks and balances of parliamentary democracy could become a force that curbs the murky business practices of some politicians.

But like the general public, business too wants their elected officials to focus on moving the country forward. Former U.S. Ambassador to Ukraine, Carlos Pascual, now Vice President of The Brookings Institute, offered the country's political leadership some sage advice: "Rather than posture over the electoral outcomes, leading politicians would do well to put party politics aside and forge a government of technocrats focused on policy agenda: balancing the budget, stimulating small business, fulfilling the country's agricultural promise, improving competitiveness, protecting pensioners, ensuring energy security and giving substance to the rule of law... Pursue such an agenda and the next Ukrainian government might have some longevity and be able to focus on the big issues: Ukraine's prospective membership in the WTO and NATO, its relationship to Europe, dependence on Russia."



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## Free and Fair Elections

Millions of Ukrainians (67% turnout) cast their votes on March 26th for dozens of political parties running for the 450-seat parliament. They also selected the deputies to regional and municipal councils. The thousands of newly elected officials, while expected to continue moving Ukraine in a pro-European direction, will change the face of government throughout the country.

Much like the presidential election held in Belarus last weekend, past elections in Ukraine have been less than democratic. In the 2004 presidential race, the government censored journalists, denied the opposition access to the mass media, and broke up peaceful gatherings. Opposition leaders and activists complained about being followed and harassed by police. Law enforcement agencies were mobilized to falsify the vote results at local election committees. Evidence of the fraud was compiled during a later investigation, and close to 5,000 people were eventually punished.

What a change two years make. The election was uniformly declared as free and fair both within Ukraine's border and among international observers.

"We can say that Ukraine's post-Soviet era has decidedly ended with these elections," says PBN's Myron Wasyluk. "This is the beginning of the democratic era."

A key step in the battle to rebuild public trust in government has been ending government censorship of journalists and ensuring freedom of the press. During this election campaign, the media showed that it can be objective and fair. Evening television news programs presented various points of view, giving airtime to opponents of the current government as well as to its proponents. Commentators weighed in on all sides. It was up to readers and viewers to

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**Above:** Viktor Yanukovich, former prime minister and leader of the front-running Party of Regions, and his wife Lyudmila cast their votes at a polling station in Kyiv.

**Below:** Yulia Tymoshenko, whose eponymous political bloc proved the most popular among "orange" voters, holds the hand of a future constituent in Dnepropetrovsk.



decide who is right and who is wrong.

But the most telling sign of change was that no one knew, for sure, the winners and losers of the March 26th, until the votes were counted. Everything depended on voter turnout.

For the first time in independent Ukraine's 14-year history, free, fair and transparent elections were held. Campaigning and political rallies occurred without interference. Censorship and the suppression of press freedoms are things of the past. Law enforcement agencies did not create an environment of fear or hysteria; instead, they offered rewards to citizens to blow the whistle on officials who break the law. Borders were open, and the incumbent government welcomed election monitors.

During the Orange Revolution, Ukrainians firmly chose the course of democracy, economic freedom and political compromise. Political competition has been the tool used to stimulate discussion in society so voters can chose the party that best represents their views. And while election shenanigans occur everywhere, this round of elections were void of official interference or intervention.

"While not all agree on the meaning of the Orange Revolution, one thing's for certain: Normalcy is in the air in Ukraine. And this bodes well for democracy and regional stability," says Myron.



**Above:** Prime Minister and Our Ukraine party member, Yuriy Yekhanurov, completes his ballot in Kyiv, where all of the officials elected to the Verkhovna Rada on March 26th will come together to determine the direction of Ukraine.

Photos: ITAR-TASS



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## News from PBN Worldwide

**In Our Opinion.** PBNers recently had two opinion editorials published in the *Moscow Times* — Senior Vice President Myron Wasyluk published an editorial on the free and fair elections in Ukraine and Olga Barannikova, PBN's Director of Regulatory and Consumer Affairs, on efforts to annul Russia's intellectual property rights laws. PBN is leading the resistance on behalf of the Coalition for Intellectual Property Rights on this issue.

Read their op-eds: <http://www.pbnco.com/eng/news>

**Another Point of View.** PBN's Senior Strategist for Political Affairs Vyacheslav Nikonov in Russia was interviewed by the Russian arm of the internet site fednews.com about his views on the Ukraine election.

Read the interview transcript:  
<http://www.pbnco.com/eng/news>

**Very Good.** Velysell, one of Russia's leading technology companies, hired PBN to conduct a communications audit and media relations campaign.

Email Masha: [Masha.Zhog@pbnco.com](mailto:Masha.Zhog@pbnco.com)

**Security Minded.** PBN•DC has been hired by the Retail Industry Leadership Association (RILA) on the high-profile port security issue. RILA members include Home Depot, Target, WalMart, Best Buy and other major retailers.

Email Paul: [Paul.Nathanson@pbnco.com](mailto:Paul.Nathanson@pbnco.com)

**Fast Lane.** PBN has also been retained by Rolf Group of Companies, the number one importer of foreign cars on the Russian market, to provide strategic communications services. Our first assignment is to help prepare a

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PBN•Kyiv Senior Vice President Myron Wasyluk and PBN•Moscow Director of Regulatory and Consumer Affairs Olga Barannikova published recent opinion editorials in *The Moscow Times*.

presentation to the Russian Economic Forum and other related activities in London on April 23-25.

Email Trevor: [Trevor.Barton@pbnco.com](mailto:Trevor.Barton@pbnco.com)

**Conference Chair.** PBN's Baltic Managing Director, Romans Baumanis, has been hired by the Nordic Council of Ministers to chair and moderate a conference celebrating the council's 15 years in Latvia. The conference, called "Welfare and Growth in Northern Europe — Foundation for Global Competitiveness of the Region," is scheduled for April 4.

Email Romans: [Romans.Baumanis@pbnco.com](mailto:Romans.Baumanis@pbnco.com)

**Double Duty.** PBN's Trevor Barton of London and Tom Blackwell of Moscow will both be part of the "Live-Link" debate on Russian IPOs sponsored by the Russo-British Chamber of Commerce on April 19. Trevor will chair the panel, which will involve audiences in both St. Petersburg and London, and Tom will be one of the panelists.

Email Trevor and Tom: [Trevor.Barton@pbnco.com](mailto:Trevor.Barton@pbnco.com) and [Tom.Blackwell@pbnco.com](mailto:Tom.Blackwell@pbnco.com)

**Good Investment.** Trevor also recently chaired a seminar on investment into Russia in Manchester, England. The event was organized by UK Trade & Investment, the UK government agency responsible for promoting inward and outward investment. Russia remains on the government's priority list.

**Conflict Resolution.** Tom Blackwell recently made a presentation on the Role of PR in Hostile and Non-Hostile Takeovers during the conference on Strategies for Corporate Conflict Resolution held on March 20th in Moscow.

**Very Engaging.** Anna Balishina of PBN's DC office is engaged to be married. Congratulations Anna!

Email Anna: [Anna.Balishina@pbnco.com](mailto:Anna.Balishina@pbnco.com)

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Recent PBN appointments include projects with Russian technology firm Verysell, the chairmanship of the upcoming conference for the Nordic Council of Ministers in Latvia, and both chair and panel spots at the next Russo-British Chamber of Commerce "Live-Link" debate.



Congratulations go out to PBN•DC Associate Account Manager Anna Balishina, who recently announced her engagement!